

Message Text

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PAGE 01 OTTAWA 01480 161700Z

63

ACTION EUR-25

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04 PRS-01

USIA-15 DRC-01 /174 W

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R 161504Z MAY 74

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 3478

C O N F I D E N T I A L OTTAWA 1480

E.O. 11652: GDS

TAGS: ENRG CA

SUBJECT: ENERGY; INCREASE IN CRUDE OIL EXPORT CHARGE

REF: OTTAWA 1466

1. REFTEL REPORTED GOC DECISION TO RAISE CRUDE OIL EXPORT CHARGE TO \$5.20 PER BARREL EFFECTIVE JUNE 1 AND ALSO COMMENTED ON WHAT APPEARS TO BE NEW APPROACH TO DETERMINING LEVEL OF THIS TAX. IN LIGHT OF RECENT REPORTS ON WORLD OIL SITUATION WHICH HAVE SUGGESTED THAT PRICE TRENDS ARE DOWNWARD, EMBOFFS WHO HAVE BEEN FOLLOWING ENERGY DEVELOPMENTS WERE SURPRISED AT GOC MOVE TO INCREASE TAX.

2. DEPARTMENT WILL RECALL THAT WHEN TAX WAS FIRST IMPOSED LAST FALL, NATION ENERGY BOARD WAS SUPPOSED TO DETERMINE LEVEL ON BASIS OF DIFFERENCE BETWEEN DOMESTIC CANADIAN PRICE WHICH WAS SUBJECT TO "VOLUNTARY" FREEZE AND "CHICAGO PRICE" FOR IMPORTED OIL. GOC ARGUMENT WAS THAT CANADA SHOULD NOT BE EXPECTED TO SELL OIL TO U.S. AT LOWER PRICE THAN U.S. WOULD
CONFIDENTIAL

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PAGE 02 OTTAWA 01480 161700Z

HAVE TO PAY TO OTHER FOREIGN SUPPLIERS; IF EXPORTS

WERE PERMITTED AT DOMESTIC PRICE, GOC CONTENDED, COMPANIES WOULD CHARGE GOING PRICE AT DESTINATION AND REAP WINDFALL PROFIT. GOC SPOKESMEN ALSO DEFENDED TAX ON GROUNDS THAT CANADA HAD TO PAY WORLD PRICE FOR IMPORTS TO EASTERN CANADA AND SO CANADA DID NOT COME OUT AHEAD AS A RESULT OF CHARGING TAX ON EXPORTS BUT MERELY NEUTRALIZED BALANCE-OF-PAYMENTS IMPACT OF HIGHER WORLD OIL PRICES.

3. EMPHASIS NOW SEEMS TO BE SHIFTING WITH FOCUS NOT ON WHAT U.S. CUSTOMERS IN MID-WEST WOULD HAVE TO PAY FOR ALTERNATE FOREIGN OIL BUT ON WHAT CANADIAN CUSTOMERS IN EASTERN CANADA ARE PAYING. EMBASSY HAS NO IDEA WHAT DIFFERENCE, IF ANY, THERE IS BETWEEN, FOR EXAMPLE, CHICAGO AND MONTREAL PRICES OF FOREIGN CRUDE. WE NOTE, HOWEVER, THAT FEDERAL-PROVINCIAL AGREEMENT OF LATE MARCH WOULD APPEAR TO ENCOURAGE (AND CERTAINLY NOT TO DISCOURAGE) SALE OF HIGH PRICED OVERSEAS OIL TO EASTERN CANADA SINCE FEDERAL GOVERNMENT IS COMMITTED TO SUBSIDIZE EASTERN CANADIAN CONSUMERS TO EXTENT PRICE IS ABOVE NEWLY AGREED DOMESTIC LEVEL. THIS SUBSIDY IS ALSO PAINLESS FOR GOC AS LONG AS REVENUES FOR IT ARE PROVIDED, IN EFFECT, BY U.S. CUSTOMERS FOR CANADIAN CRUDE.

4. EMBASSY SUGGESTS THAT WASHINGTON AGENCIES MAY WISH TO LOOK INTO FACTUAL SITUATION WITH RESPECT TO PRICE RELATIONSHIPS, ETC. AND CONSIDER WHETHER THERE IS BASIS FOR EXPRESSION OF CONCERN RE TAX ESCALATION. PRESENT PRE-ELECTION ATMOSPHERE MAY NOT BE CONDUCIVE TO RATIONAL DISCOURSE ON THE QUESTION BUT, IF WE HAVE A CASE TO MAKE, WE PROBABLY SHOULD AT LEAST GO ON RECORD SOON. IF ANYTHING IS TO BE SAID TO CANADIANS, WE SUGGEST THAT PRESENTATION BE MADE INITIALLY TO CANADIAN EMBASSY IN WASHINGTON WITH POSSIBLE FOLLOW-UP IN OTTAWA AS APPROPRIATE.
PORTER

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